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C O N F I D E N T I A L SECTION 01 OF 04 MINSK 000794

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SUBJECT: PRESSURES ON LUKASHENKO: CURRENT STATE OF PLAY

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Classified By: CLASSIFIED BY CHARGE D'AFFAIRES CONSTANCE A. PHILIPOT FOR
REASONS 1.4 (B,D)

[1](#)1. (C) Summary: Although Lukashenko secured a third term in office through rigged March presidential elections, the regime is grappling with unprecedented political and economic pressure from the East and the West, and to a limited extent, from within. Belarusians interpret Gazprom's plans to quadruple natural gas prices as a broader Russian effort to establish economic and political control over Belarus, although it seems likely that Lukashenko will reach a compromise. Targeted GOB officials are feeling the squeeze of recent U.S.-EU sanctions. The democratic opposition, buoyed up by the public support they gained during the March elections, remains a thorn in the regime's side. However, the opposition unfortunately has lost momentum as a result of disorganization and leadership disputes. End Summary.

Unprecedented Russian Pressure on Belarus

[1](#)2. (C) Russia, more than any other international actor, plays a pivotal role in Belarus' internal politics. At the moment, Belarusians see Russia closely and publicly scrutinizing its political and economic support for the Lukashenko regime.

Russia Targets Belarus' Economy

[1](#)3. (C) In a move perceived as a slap at Lukashenko, Russia's gas giant Gazprom announced only several days after the March presidential elections that Belarus will pay USD 200 per thousand cubic meters for gas supplies in 2007, which represents a fourfold increase in price from USD 47 per tcm. Gazprom explained that it plans to raise gas prices for Ukraine, Moldova, and Belarus to "European market prices." President Putin noted on June 16 at the Shanghai Cooperation Organization Summit that, "they (Belarusians) won't manage to get freebies at our expense." Moreover, Russia is pressing Belarus to raise oil export duties to Russian levels and to reimburse the Russian budget for previous losses for Russian crude imported to Belarus duty-free and charged Belarusian duties upon re-export. GOB officials publicly stated that if Minsk were forced to match its duties to Russia's, Belarus' oil refineries would become unprofitable.

[1](#)4. (C) Clearly, a significant boost in gas prices for Belarus would have a dramatic impact on the Belarusian economy. Independent economists generally agree that if

Russia were to increase gas prices to USD 200, Belarus' annual GDP growth would drop from nearly ten percent to one percent, and average wages would fall by nearly 11 percent. If Russia were to also force Belarus to match Russia's export duties, Lukashenko would have to scale down social payments, including pension and wage payments, even further. (Note: Lukashenko could try to mitigate the problem by drawing on his "presidential" funds, but this would be only a temporary fix.) Given that Belarus has consistently ignored IMF and World Bank recommendations on badly needed economic reform, the Belarusian economy is ill equipped to handle such major external shocks.

Possible Motivations Behind Russian Pressure

15. (C) The reasons for Russia's more aggressive handling of Lukashenko remain unclear, but they likely have to do with Putin's efforts to force Lukashenko to make costly economic and political concessions in exchange for Russian political and economic support in the run up to Belarus' presidential elections. Reliable Embassy contacts claim Russia is pressuring Lukashenko to cede some or all of Belarus' most prized economic assets, including Belarus' gas transit company Beltransgaz, the Mozyr oil refinery, and a host of profitable business investment projects in Belarus. The GOB has recently agreed to allow Dutch bank ABN Amro appraise Beltransgaz, apparently as a first step in transferring controlling interest to Gazprom and, in exchange, maintaining subsidized gas prices.

16. (C) Some analysts also suggest Russia is demanding that Lukashenko move forward on political and economic integration with Russia, including the formation of a stronger Belarus-Russia Union State. Putin has expressed concern and

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regret that Belarus has moved so slowly on Belarus-Russia Union State negotiations. Moreover, Russian politicians' recent statements suggest Russia is pushing for simultaneous referenda in Belarus and Russia on the Constitutional Act governing the Union State as early as this Fall. Analysts point out that Russian law prohibits the convening of referenda during election years, and therefore 2006 would be the last opportunity for a referendum before Putin steps down from power in 2008. (Note: Russia will hold parliamentary elections in 2007 and presidential elections in 2008.) Belarus and Russia have been negotiating the political and economic powers of the Union State since the inception of the project in 1997, and Russia may be using the threat of higher gas prices to accelerate the talks.

Unified Pressure From The West

17. (C) Following the official OSCE finding that the presidential elections were fraudulent, the U.S. and EU have worked in concert and demonstrated unparalleled resolve to shine the spotlight on the regime's anti-democratic practices and human rights violations. The U.S. and EU imposed visa bans and froze the assets of the most odious GOB officials. The West has also made it clear to the GOB that more officials will be targeted for sanctions until the regime reverses its policies.

18. (C) The GOB has reacted by stating privately and publicly that Belarus never before had been the object of such "informational and political pressure" from the West, yet it will not bow to external pressure (ref A). When the USG and Canada refused to grant a refueling request to a GOB delegation returning from Cuba, Lukashenko announced the GOB would respond by refusing overflight clearances to aircraft carrying USG and Canadian official delegations. More recently, the GOB announced it would freeze the assets of

President Bush and Secretary Rice in Belarusian banks. These announcements remain ambiguous and even comical.

¶9. (C) Despite the rhetoric, the targeted GOB officials clearly have been affected by the sanctions. EU diplomats in Minsk have told us that several of the GOB officials on the EU visa ban immediately tried to apply for or renew their tourist visas to an EU country, but their applications were rejected. The increasing isolation over the past several years has also led Belarus to strengthen political and economic ties with such countries as Venezuela (ref B), Iran, Cuba, North Korea, and Sudan. Belarus is particularly keen on deepening and broadening relations with China. The nature of the relationships with these states remains mainly political and diplomatic, but Belarus is desperately seeking to develop stronger economic ties with them to offset potential problems with Russia.

Belarus' Opposition Made Some Gains

¶10. (C) Currently, the democratic opposition poses little threat to the regime, but the surprising number of street protesters following the stolen March elections clearly caused some concern for Lukashenko. With the help of U.S. NGOs, the democratic forces unified and took advantage of the election campaign to establish direct contact with voters and present them with an alternative to the Lukashenko regime. The public protests could explain why Lukashenko disappeared from public view for several weeks before and after his postponed inauguration ceremony. The Belarusian president is known to be obsessed with being adored by his constituents, and the massive and prolonged dissent to his reelection likely caught him by surprise. Despite increased GOB repression, the opposition coalition has taken concrete steps to use the tentatively scheduled January 2007 municipal elections to reach out to more Belarusians with an alternative vision for Belarus.

¶11. (C) However, the opposition has been unable to capitalize on gains made during the presidential election campaign and is struggling to remain united. Many in and outside of the coalition have criticized coalition leader Aleksandr Milinkevich for indecisiveness and inaction following the elections. Milinkevich recently demonstrated his leadership potential by creating an executive arm of the coalition to implement its plans for the upcoming local elections, but several political analysts note the coalition leader still devotes too much energy attending to the conflicting interests of the political parties in the

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coalition. Civil society groups stress that Milinkevich and a "coalition of the willing" need to reach out more to the thousands of Belarusians who participated in the election rallies and demonstrations in March. Many analysts interpret rival coalition leader Anatoly Lebedko's call for holding a second democratic congress, similar to the October 2005 congress, as an effort remove Milinkevich from the de facto coalition leadership position. The authorities sentenced another key opposition leader, Aleksandr Kozulin, to five and one-half years in prison for "petty hooliganism" and disturbing the peace (ref C).

Despite Pressures, Regime Not in Imminent Danger

¶12. (C) Clearly, Lukashenko and his inner circle have been affected by the squeeze from the East and the West, but we should not underestimate the president's political acumen and the political and economic realities constraining Russia. Lukashenko has probably concluded that Russia will not take action to unseat him or foment a political crisis in Belarus. In negotiations with Russia, Lukashenko is likely taking

into account the following considerations:

-- Russia's Near Abroad Policy. Given the Orange and Rose revolutions in Ukraine and Georgia, reliable Embassy contacts assert that Russia's foreign policy in its neighborhood is based on stability and loyalty. A senior Russian diplomat in Minsk recently confirmed with Pol/Econ Chief that Lukashenko, despite his faults and quirks, is viewed as a relatively stable ally to Russia.

-- Lukashenko's Need for Complete Economic Control. Lukashenko and his inner circle are keenly aware that if Belarus gives up control of key economic assets such as Beltransgaz, it will lose its most important bargaining chip in future disputes with Russia. As one prominent Belarusian economist put it, "once Belarus cedes control of Beltransgaz, what else does Putin have to talk about with Lukashenko?" Moreover, without control of key moneymaking assets like Beltransgaz, Lukashenko's grip on Belarus is weakened.

-- Belarus' Status As A Gas Transit Country. As in February 2004, if Russia remains unwilling to sign a gas contract at a substantially lower price than USD 200 per tcm, Belarus will simply refuse to sign a gas transit contract with Gazprom, thereby putting Russia's gas supplies to EU countries in jeopardy. Economists here speculate that to in order for Russia to avoid future problems with its EU consumers, it would still export gas through Belarusian pipelines, allowing Belarus to siphon off a portion of the gas that is technically "contraband" within its borders.

-- Little Time Left To Create a Stronger Union State. Political observers are divided over whether Russia is really pursuing a stronger Union State with Belarus. If this is Russia's main objective, most analysts agree that Lukashenko will keep stalling on gas price negotiations at least until the end of they year, thus making it highly unlikely that a referendum on the Union State's Constitutional Act would be held in 2006. Once this year passes, political commentators insist that Russia will not be able to hold a referendum on the Act until 2009, after Putin has left office. Moreover, Lukashenko supporters and a large segment of the opposition compare their country favorably with the chaos they see in Russia and would resent more acute Russian pressure for integration.

More Likely Scenario - A Gas Price Lukashenko Can Afford

113. (C) Several months into Lukashenko's third term, the regime is grappling with external, and to some extent, internal pressures, but it does not seem to be on the verge of collapse. Lukashenko, though clearly bothered by it, is accustomed to being shunned by the West, and the domestic opposition is still too marginalized and disorganized to present a formidable challenge to the regime in the near future. The key source of pressure for Lukashenko during his third term is Russia. Most analysts here conclude that the Kremlin, among other things, has grown weary of watching Lukashenko tout his "economic miracle" at the expense of Russia and thus seeks to extract costly economic and possibly political concessions from the Belarusian president in exchange for continued support. World Bank representatives in Minsk have told us that any gas price over USD 90 per tcm would have an impact on the economy.

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114. (C) However, economists generally agree that Belarus and Russia will agree on a gas price that will weaken, but not undermine, Belarus' economic stability. Several economists with reliable contacts in the GOB estimate that the final price for gas will be between USD 100 and 130 per tcm, which they speculate would be painful but not catastrophic for the economy. One economist explained that if Belarus were to pay

USD 100, then its GDP would drop by four percent and average wages by five percent. On the sale of Beltransgaz, political observers speculate that Lukashenko will somehow manage to retain controlling interest of Beltransgaz. For a variety of reasons, Lukashenko is counting on, or at least hopeful that, Russia needs Belarus almost as much as Belarus needs Russia. Philipot